10201

MERCY FAMILY CENTER
A PROGRAM OF
SISTERS OF MERCY MINISTRIES
FINANCIAL STATEMENTS AND
AUDITORS' REPORT

June 30, 2009

MERCY FAMILY CENTER
A PROGRAM OF SISTERS OF MERCY MINISTRIES

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June 30, 2009

Kushner LaGraize, L.L.C.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Sisters of Mercy Ministries

We have audited the accompanying statement of financial position of Mercy Family Center, a Program of Sisters of Mercy Ministries, (a non-profit corporation) (the Organization) as of June 30, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed more fully in Note 1, the financial statements presented are only for the Mercy Family Center, a Program of Sisters of Mercy Ministries, and are not intended to present fairly the financial position and changes in net assets of Sisters of Mercy Ministries.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2009, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Organization, taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Kushner LaGraize, L.L.C.

Metairie, Louisiana
September 1, 2009

MERCY FAMILY CENTER
A PROGRAM OF SISTERS OF MERCY MINISTRIES

STATEMENT OF FINANCIAL POSITION

June 30, 2009

ASSETS

Cash and cash equivalents	$ 319,610
Restricted cash and cash equivalents	304,213
Certificates of deposit	125,000
Investment securities	239,276
Receivables	
Patients, net	172,700
Students, net	20,514
Grants	35,261
Employees	2,190
	230,665
Prepaid expenses	2,527
Property and equipment - at cost, net of depreciation and amortization	180,701
Deposits	10,443
TOTAL ASSETS	$ 1,412,435

LIABILITIES AND NET ASSETS

Accounts payable	$ 51,750
Accrued expenses	228,591
Unearned revenue	304,213
Due to Sisters of Mercy Health System	1,775,416
TOTAL LIABILITIES	2,359,970
COMMITMENTS AND CONTINGENCIES	
Net assets	
Unrestricted	(947,535)
TOTAL LIABILITIES AND NET ASSETS	$ 1,412,435

The accompanying notes are an integral part of these financial statements.

MERCY FAMILY CENTER
A PROGRAM OF SISTERS OF MERCY MINISTRIES

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2009

	Unrestricted
REVENUES	
Net patient service revenues	$ 1,252,076
Net student service revenues	170,753
Contributions	
Sisters of Mercy Health System	87,787
Other	76,331
Grants	1,417,700
Debt forgiveness - Sisters of Mercy Health System	975,122
Other income	10,223
TOTAL REVENUES	3,989,992
EXPENSES	
Salaries	2,653,433
Fringe benefits	408,785
Travel	57,551
Contractual	22,691
Supplies	162,668
Telephone	80,842
Utilities	18,506
Equipment expense	9,126
Lease and rentals	257,002
Insurance	20,134
Marketing	17,133
Dues and subscriptions	2,540
Provision for bad debts	72,805
Legal and auditing	33,307
Consulting fees	36,150
Seminars and training	64,902
Investment expense	33,951
Depreciation and amortization	127,013
Other	76,080
TOTAL EXPENSES	4,154,619
Decrease in net assets	(164,627)
Net assets, beginning of year	(782,908)
Net assets, end of year	$ (947,535)

MERCY FAMILY CENTER
A PROGRAM OF SISTERS OF MERCY MINISTRIES

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:	
Decrease in net assets	$ (164,627)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:	
Debt forgiveness-Sisters of Mercy Health System	(975,122)
Depreciation and amortization	127,013
Provision for bad debts	72,805
Unrealized depreciation of investment securities	35,722
Changes in assets and liabilities:	
Increase in receivables	(132,641)
Decrease in prepaid expenses	13,120
Decrease in accounts payable and accrued expenses	(70,520)
NET CASH USED IN OPERATING ACTIVITIES	(1,094,250)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	(5,781)
NET CASH USED IN INVESTING ACTIVITIES	(5,781)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Increase in due to Sisters of Mercy Health System	936,961
NET CASH USED IN FINANCING ACTIVITIES	936,961
NET DECREASE IN CASH AND CASH EQUIVALENTS	(163,070)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	786,893
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 623,823

The accompanying notes are an integral part of these financial statements.

MERCY FAMILY CENTER
A PROGRAM OF SISTERS OF MERCY MINISTRIES

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Organization's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Nature of Activities

Mercy Family Center is a program of Sisters of Mercy Ministries, a non-profit corporation. Sisters of Mercy Health System is the sole member of Sisters of Mercy Ministries. Mercy Family Center is a multi-disciplinary, comprehensive mental health program for children and their families. Its services consist of counseling, testing and assessments for all ranges of abilities, medication management, treatment of Attention Deficit Hyperactivity Disorder, parent training for adolescent behavior management, teacher training, and school consultations and observations. Mercy Family Center has three clinics located in Metairie, New Orleans, and Mandeville, Louisiana and a learning center located in Mandeville, Louisiana.

Financial Statement Presentation

Mercy Family Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. There were no temporarily or permanently restricted net assets at June 30, 2009.

Revenue Recognition

For financial reporting purposes, Mercy Family Center recognizes all contributed support as income in the period received. Contributed support is reported as unrestricted to restricted depending on the existence of donor stipulations that limit the use of the support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "net assets released from restrictions."

Grant revenue is recognized as it is earned in accordance with the terms of the approved contracts.

Net patient service revenues are reported at estimated net realized amounts from patients, third-party payors, and others for services rendered. In addition, charity allowances of $464,315 have been netted with patient service revenues.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investment Securities

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in investment income.

Patient Receivables

Reductions of patient receivables due to contractual allowances, denial of claims, ineligible charges and bad debts are recorded against revenues. Patient receivables are stated net of allowances for contractual adjustments, denial of claims, ineligible charges, and bad debts. Bad debt allowances are calculated based on historical percentages. Patient receivables are generally considered past due after 30 days. At June 30, 2009, $157,517, of the $317,653 patient receivable was over 90 days past due.

Property and Equipment

The cost of property and equipment is depreciated/amortized on a straight-line basis over the estimated useful lives of the assets (generally 3 to 10 years). Donated assets are recorded at the estimated value at the date of donation. Depreciation and amortization expense for the year ended June 30, 2009 totaled $127,013.

It is the policy of Mercy Family Center to capitalize all property, furniture, and equipment with an acquisition cost in excess of $1,000.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Equivalents

For the purposes of the statement of cash flows, Mercy Family Center considers all investments with original maturities of three months or less to be cash equivalents.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Values of Financial Instruments

Fair value estimates, methods and assumptions for the Organization's financial instruments of cash and cash equivalents, certificates of deposit, investment securities, receivables, accounts payable and accrued expenses, unearned revenue and due to Sisters of Mercy Health System are that the carrying amounts reported in the statement of financial position are a reasonable estimate of fair value as of June 30, 2009.

Pension Plans

The Sisters of Mercy Health System sponsors a Retirement Plan for affiliates of Sisters of Mercy Health System. Contributions by the Organization to this Plan for the year ended June 30, 2009 were $71,482. The Sisters of Mercy Health System also sponsors a 401(k) Plan for affiliates of Sisters of Mercy Health System. Contributions by the Organization to this Plan for the year ended June 30, 2009 were $11,531.

NOTE 2 - RESTRICTED CASH AND CASH EQUIVALENTS

As of June 30, 2009, there was restricted cash and cash equivalents in the amount of $304,213 for federal program expenditures.

NOTE 3 - CERTIFICATES OF DEPOSIT

The certificates of deposit totaling $125,000 are pledged to the Louisiana Patient's Compensation Fund as a condition of the malpractice insurance coverage purchased by Mercy Family Center.

NOTE 4 - INVESTMENT SECURITIES

The investments of Mercy Family Center are maintained in a pooled account of the Mercy Investment Fund. The Mercy Investment Fund is credited with the gains in the underlying investments and charged with the losses. The pooled account is comprised of investments in marketable equity securities with readily determinable fair values are stated at fair value based on quoted prices in active markets (all Level 1 measurements). The fair value of the investments for the year ended June 30, 2009, totaled $239,276. The unrealized loss for the year ended June 30, 2009, totaled $35,722 and is included in the investment expense account in the statement of activities.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2009 consists of the following:

	2009
Leasehold improvements	$ 496,811
Furniture and equipment	366,907
Less accumulated depreciation and amortization	(683,017)
	$ 180,701

NOTE 6 - COMMITMENTS

Mercy Family Center leases its facilities in Metairie, New Orleans and Mandeville, Louisiana under noncancellable agreements accounted for as operating leases. The Metairie office lease expires January, 2014. The New Orleans office lease expires October, 2010. The Mandeville office lease expires December 2009 and the Mandeville Learning Center lease expires October 2010.

Future minimum lease payments are as follows for the years ending June 30:

2010	$ 236,380
2011	168,068
2012	145,935
2013	148,068
2014	86,373
	$ 784,824

The rental expense for the year ended June 30, 2009 totaled $257,002.

NOTE 7 - INCOME TAXES

Mercy Family Center is a non-profit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Mercy Family Center has elected to defer the provisions of FIN 48, *Accounting for Income Taxes,* under the provisions of FSP FIN 48-3. The Organization uses a FAS 5, *Loss Contingencies,* approach for evaluating uncertain tax positions. The Organization is not aware of any uncertain tax positions that may result in liabilities related to income taxes.

NOTE 8 - OFF-BALANCE SHEET RISK

The uninsured cash balances consist of the following at June 30:

	2009
Cash balances per bank statements	$ 761,293
Less FDIC insurance	(657,098)
Uninsured cash balances	$ 104,195

NOTE 9 - CONCENTRATIONS OF CREDIT RISK

Mercy Family Center grants credit without collateral to its patients, most of whom are local residents and are insured under Medicaid or third-party payor agreements. Mercy Family Center recognizes that revenues and receivables from government agencies are significant to the Organization's operations, but does not believe that there are any significant credit risks associated with these government agencies. The mix of receivables from patients and third-party payors at June 30, 2009 was as follows:

Medicaid	33%
Blue Cross/Blue Shield	21%
Other third-party payors	31%
Patients	15%
	100%

NOTE 10 - RECEIVABLES

Mercy Family Center patient receivables and Mercy Family Center student receivables consisted of the following at June 30, 2009:

	Mercy Family Center	Mercy Learning Center
Receivables	$ 317,653	$ 23,056
Less allowance for doubtful accounts	(144,953)	(2,542)
	$ 172,700	$ 20,514

Mercy Family Center receivables are net of contractual allowances, denial of claims, and ineligible charges.

NOTE 11 - SISTERS OF MERCY HEALTH SYSTEM

At June 30, 2009, Mercy Family Center had a payable of $1,775,416 due to Sisters of Mercy Health System for payment of salaries and fringe benefits. This payable is not expected to be paid in the next year.

During the year ended June 30, 2009, $2,632,893 was paid by the Sisters of Mercy Health System on behalf of Mercy Family Center for salaries and fringe benefits.

During the year ended June 30, 2009, $975,122 of the payable due to Sisters of Mercy Health System was forgiven, and this amount was taken into income for the year ended June 30, 2009.

NOTE 12 - CONCENTRATIONS

During the year ended June 30, 2009, Mercy Family Center received approximately 50 percent of its net patient service revenues, approximately $626,000, from Medicaid.

NOTE 13 - PRIOR PERIOD RESTATEMENT OF NET ASSETS

Mercy Family Center previously accounted for grant funds received prior to incurring the expenses as temporarily restricted net assets. However, the grants are considered to be exchange transactions, whereby grant revenues are recognized when earned and expenses are recognized as incurred. Accordingly, the Organization restated their net assets for the year ended June 30, 2008. The effect of this restatement was to decrease net assets and increase unearned revenue for the year ended June 30, 2008 by $438,364.

Net assets at June 30, 2008 as previously reported	$ (344,544)
Prior period adjustment	(438,364)
Net assets at June 30, 2008 as restated	$ (782,908)

NOTE 14 - FEDERAL FINANCIAL ASSISTANCE

Mercy Family Center has been awarded two grants from the U.S. Department of Health and Human Services to provide behavioral health services to children, adolescents and families. The grants are considered to be exchange transactions. Accordingly, revenues are recognized when earned and expenses are recognized as incurred. Separate interest-bearing checking accounts have been established for these two grants. Grant activity for the year ended June 30, 2009 was as follows:

NOTE 14 - FEDERAL FINANCIAL ASSISTANCE - Continued

Unearned revenue, beginning of year	$ 293,661
Grant receipts	996,718
Grant expenditures	(1,021,427)
Grant receivable	35,261
Unearned revenue, end of year	$ 304,213

NOTE 15 - FUNCTIONAL EXPENSES

Expenses incurred for the year ended June 30, 2009 were for the following purposes:

Management and general	$ 653,932
Program services	3,483,554
Marketing	17,133
	$ 4,154,619

NOTE 16 - CONTINGENCIES

Mercy Family Center is in the preliminary stages of investigating certain billing and coding practices regarding certain psychological services provided at its clinics to patients covered by Medicaid. In the event any overpayments are discovered, Mercy Family Center intends to cure any such issues through normal administrative process.

SUPPLEMENTAL INFORMATION

MERCY FAMILY CENTER
A PROGRAM OF SISTERS OF MERCY MINISTRIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2009

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE		FEDERAL CFDA NUMBER	TOTAL FEDERAL EXPENDITURES
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Funds passed through Substance Abuse and Mental Health Services Administration			
Project Fleur de lis		93.243	$ 212,641
Funds passed through Louisiana Public Health Institute:			
Primary Care Access and Stabilization Grant	(1)	93.779	808,786
Total U.S. Department of Health and Human Services			1,021,427
Total Federal Assistance			$ 1,021,427

(1) This program is considered a major program under OMB Circular A-133.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Presentation of Financial Statements

The accompanying Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting. Grant revenues are recorded, for financial reporting purposes, when Mercy Family Center has met the cost of reimbursement or funding qualifications for the respective grants.

Kushner LaGraize, L.L.C.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Sisters of Mercy Ministries

We have audited the financial statements of Mercy Family Center, a program of Sisters of Mercy Ministries, (a non-profit corporation) (the Organization) as of and for the year ended June 30, 2009, and have issued our report thereon dated September 1, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mercy Family Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mercy Family Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mercy Family Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. The significant deficiencies are listed as Items 2009-1 and 2009-2.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies, and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mercy Family Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Questioned Costs as Items 2009-3 and 2009-4.

We noted certain matters that we reported to management of Mercy Family Center in a separate letter dated September 1, 2009.

Mercy Family Center's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Mercy Family Center's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors of Sisters of Mercy Ministries, others within the Organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kushner LaGraize, L.L.C.

Metairie, Louisiana
September 1, 2009

Kushner LaGraize, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Sisters of Mercy Ministries

Compliance

We have audited the compliance of Mercy Family Center, a program of Sisters of Mercy Ministries, (a nonprofit corporation)(the Organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Mercy Family Center's major federal programs are identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Mercy Family Center's management. Our responsibility is to express an opinion on Mercy Family Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mercy Family Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Mercy Family Center's compliance with those requirements.

In our opinion, Mercy Family Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as Items 2009-3 and 2009-4.

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Internal Control Over Compliance

The management of Mercy Family Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Mercy Family Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mercy Family Center's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Mercy Family Center's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Mercy Family Center's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors of Sisters of Mercy Ministries, others within the Organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kushner LaGraize, L.L.C.

Metairie, Louisiana
September 1, 2009

MERCY FAMILY CENTER
A PROGRAM OF SISTERS OF MERCY MINISTRIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2009

I. SUMMARY OF THE AUDITORS' REPORT

A. The auditors' report expresses an unqualified opinion on the financial statements of Mercy Family Center, a Program of Sisters of Mercy Ministries.

B. Two significant deficiencies were described during the audit of the financial statements in the report titled "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards." The significant deficiencies were not deemed material weaknesses.

C. No instances of noncompliance that were material to the financial statements of Mercy Family Center, a Program of Sisters of Mercy Ministries, were disclosed during the audit.

D. No significant deficiencies relating to the audit of the major federal award program is reported in the *Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.*

E. The auditors' report on compliance for the major federal award program for Mercy Family Center, a Program of Sisters of Mercy Ministries, expressed an unqualified opinion.

F. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.

G. A Management Letter was issued for the year ended June 30, 2009.

H. The major program tested as a major program includes the following:

1. U.S. Department of Health and Human Services
   Primary Care Access and Stabilization Grant (CFDA No. 93.779)

I. The threshold for distinguishing Types A and Type B program was $300,000.

J. Mercy Family Center, a Program of Sisters of Mercy Ministries, did not qualify as a low-risk auditee.

II. FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Significant Deficiencies

2009-1. Cash Disbursements

FINDING

During our test of transactions, we tested 60 cash disbursements and found nine paid invoices that did not indicate on the original invoice that payment was made.

RECOMMENDATION

Although Mercy Family Center has some controls in place, such as attaching the check stub to the invoice to show its payment and QuickBooks not allowing duplicate invoice numbers to be entered for payment, we recommend stamping all invoices paid to cancel them in order to ensure items are not paid multiple times in order to strengthen controls over cash disbursements and help prevent misappropriation of assets.

RESPONSE

See Management's Corrective Action Plan

2009-2. Cash Disbursements

FINDING

During our test of transactions, we tested 60 cash disbursements and found five invoices that were paid without the proper approval.

RECOMMENDATION

We recommend that invoices are reviewed and signed by an authorized employee separate from the employee responsible for writing the checks. We recommend this be done before entering and paying the invoice in order to strengthen controls over cash disbursements and help prevent misappropriation of assets.

II. FINDINGS RELATED TO THE FINANCIAL STATEMENTS-CONTINUED

2009-2. Cash Disbursements - Continued

RESPONSE

See Management's Corrective Action Plan

III. FINDINGS AND QUESTIONED COSTS - NON-MAJOR FEDERAL AWARD PROGRAM AUDIT

Substance Abuse and Mental Health Services Administration (SAMHSA) - Project Fleur de lis

2009-3. Questioned Costs

FINDING

During our test of transactions, we tested 12 cash disbursements related to federal expenditures and found an invoice for $62.50 from Heckman Consulting that was not an allowable expenditure under the SAMHSA grant contract. Per the manager of business operations, this cost was incurred for setting up code reports for provider productivity for Mercy Family Center and was not related to Project Fleur de lis.

RECOMMENDATION

We recommend that Mercy Family Center follow the grant stipulations and only expend grant funds on costs allowable to the grant.

RESPONSE

See Management's Corrective Action Plan

2009-4. Questioned Costs

FINDING

During our test of transactions, we tested 12 cash disbursements related to federal expenditures and found an invoice for $200.26 from Chateau Bourbon that was not an allowable expenditure under the SAMHSA grant contract. Per the manager of business operations, an employee stayed overnight in this hotel after a social event related to a training conference held at the hotel.

III. FINDINGS AND QUESTIONED COSTS - NON-MAJOR FEDERAL AWARD PROGRAM AUDIT-CONTINUED

Substance Abuse and Mental Health Services Administration (SAMHSA) - Project Fleur de lis

2009-4. Questioned Costs - Continued

RECOMMENDATION

We recommend that Mercy Family Center follows the grant stipulations and only expend grant funds on costs allowable to the grant.

RESPONSE

See Management's Corrective Action Plan

IV. STATUS OF PRIOR YEAR AUDIT FINDINGS

There were no prior year audit findings.

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www.mercyfamilycenter.com

To: Kushner LaGraize, L.L.C.

From: Mercy Family Center

Date: October 30, 2009

Subject: Management's Corrective Action Plan

The Kushner LaGraize, L.L.C. fiscal 2009 audit of Mercy Family Center included a Schedule of Findings and Questioned Costs. Listed below are the findings and recommendations that were provided within Section II of the Schedule of Findings and Questioned Costs, as well as our response as to how we have strengthened controls to address each finding.

2009-1 Cash Disbursements

Finding: During our test of transactions, we tested 60 cash disbursements and found nine paid invoices that did not indicate on the original invoice that payment was made.

Recommendation: Although Mercy Family Center has some controls in place, such as attaching the check stub to the invoice to show its payment and QuickBooks not allowing duplicate invoice numbers to be entered for payment, we recommend stamping all invoices paid to cancel them in order to ensure items are not paid multiple times in order to strengthen controls over cash disbursements and help prevent misappropriation of assets.

Response: Effective August 1, 2009, check processing transitioned to Mercy Accounts Payable Shared Services (MAPSS); all invoices are now paid centrally through Lawson. Lawson includes similar control features as QuickBooks in that it will not allow a duplicate invoice number to be entered for the same vendor.

In addition, the AP Representative maintains an invoice log with detail on all invoices received, scanned, and paid, and performs a search in the log to verify that invoices are not being received and paid multiple times.

Finally, hard copies of invoices are no longer maintained at Mercy Family Center. The invoice is received at Mercy Family Center, stamped, coded, and authorized by the Executive Director; invoices are then forwarded to Mercy Corporate Services once per week, where they receive a secondary review and authorization. At this point, the invoice image is scanned to MAPSS for data entry and payment. The scanned image is the only copy of the invoice that is maintained permanently.

By implementing the additional authorization control and utilizing MAPSS to process payment, we believe that we have strengthened controls over cash disbursements and this will, in turn, help prevent the misappropriation of assets.

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2009-2 Cash Disbursements

Finding: During our test of transactions, we tested 60 cash disbursements and found five invoices that were paid without the proper approval.

Recommendation: We recommend that invoices are reviewed and signed by an authorized employee separate from the employee responsible for writing the checks. We recommend this be done before entering and paying the invoice in order to strengthen controls over cash disbursements and help prevent misappropriation of assets.

Response: We have implemented a secondary review of all invoices prior to payment. Invoices are initially authorized by the Executive Director of Mercy Family Center and are then forwarded to Mercy Corporate Services, where they receive a secondary review and authorization. In addition, effective August 1, 2009, check processing transitioned to Mercy Accounts Payable Shared Services (MAPSS), strengthening the segregation of duties control: the MAPSS team does not receive invoices prior to authorization and will not pay an unauthorized invoice.

By implementing the additional authorization control and utilizing MAPSS to process payment, we have strengthened controls over cash disbursements and this will, in turn, help prevent the misappropriation of assets.

2009-3 Questioned Costs

Finding: During our test of transactions, we tested 12 cash disbursements related to federal expenditures and found an invoice for $62.50 from Heckman Consulting that was not an allowable expenditure under the SAMHSA grant contract. Per the manager of business operations, this cost was incurred for setting up code reports for provider productivity for Mercy Family Center and was not related to Project Fleur de lis.

Recommendation: We recommend that Mercy Family Center follow the grant stipulations and only expend grant funds on costs allowable to the grant.

Response: We agree with the recommendation and have incorporated additional structure over the coding and review of invoices. All invoices related to Project Fleur de lis (PFDL) are being coded to an accounting unit specifically set up to capture PFDL activity. In addition, invoices (including the related coding) now receive a secondary review by Mercy Corporate Services. Strengthening controls over invoice coding and the review process will ensure that grant funds are spent only on costs allowable to the grant.

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2009-4 Questioned Costs

Finding:	During our test of transactions, we tested 12 cash disbursements related to federal expenditures and found an invoice for $200.26 from Chateau Bourbon that was not an allowable expenditure under the SAMHSA grant contract. Per the manager of business operations, an employee stayed overnight in this hotel after a social event related to a training held at the hotel.
Recommendation:	We recommend that Mercy Family Center follow the grant stipulations and only expend grant funds on costs allowable to the grant.
Response:	We agree with the recommendation and have incorporated additional structure over the review of invoices. All invoices now receive a secondary review by Mercy Corporate Services. Strengthening controls over the review process will ensure that grant funds are spent only on costs allowable to the grant. We intend to repay the grant funds spent on non-allowable costs, identified in findings 2009-3 and 2009-4, through normal administrative processes with the grantor.

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MERCY FAMILY CENTER
A PROGRAM OF
SISTERS OF MERCY MINISTRIES

Memorandum of Advisory Comments

June 30, 2009

TABLE OF CONTENTS

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Sisters of Mercy Ministries

We have audited the financial statements of Mercy Family Center, a Program of Sisters of Mercy Ministries, (a nonprofit organization) (the Organization) as of and for the year ended June 30, 2009, and have issued our report thereon dated September 1, 2009. As part of our audit we considered the Organization's internal control in order to determine the nature, timing, and extent of our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

Our consideration of the internal control has been reported on in a separately issued report entitled "*Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*."

This memorandum summarizes one other matter which has come to our attention. While not involving control deficiencies, this matter does present opportunities for strengthening the internal control and improving the operating efficiency of the Organization.

We have discussed our comment and recommendation with management and the Organization has completed a corrective action plan. We will be pleased to discuss this comment and suggestion with you in further detail at your convenience, perform any additional study of this matter, or assist you in implementing the recommendation.

Kushner LaGraize, L.L.C.

Metairie, Louisiana
September 1, 2009

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MERCY FAMILY CENTER
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COMMENTS AND SUGGESTIONS
For the Year Ended June 30, 2009

09-01 Comment

During our audit procedures, it was noted that several employees at various levels and locations possess and use company credit cards. Furthermore, the cards are used for a variety of purchases, and some have high credit limits.

Recommendation

We recommend that credit cards be issued to only a few high level employees and their usage be kept to a minimum in order to strengthen the internal controls over disbursements and help prevent misappropriation of assets.

Management's Response

See Management's Corrective Action Plan.

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www.mercyfamilycenter.com

To: Kushner LaGraize, L.L.C.

From: Mercy Family Center

Date: October 30, 2009

Subject: Management's Corrective Action Plan

As part of the fiscal 2009 audit of Mercy Family Center, Kushner LaGraize, L.L.C. provided a Memorandum of Advisory Comments. Listed below is the finding and recommendation, as well as our response as to how we have strengthened controls to address the finding.

09-01

Comment: During our audit procedures, it was noted that several employees at various levels and locations possess and use company credit cards. Furthermore, the cards are used for a variety of purchases, and some have high credit limits.

Recommendation: We recommend that credit cards be issued to only a few high level employees and their usage be kept to a minimum in order to strengthen the internal controls over disbursements and help prevent misappropriation of assets.

Response: We agree and have limited the number and use of company-paid credit cards subsequent to year-end. As of June 30, 2009, there were 10 company-paid credit cards issued; this has been reduced to 1 company-paid credit card as of October 30, 2009.

To provide more visibility to amounts and items charged to the remaining company-paid credit cards, we have implemented several controls, including:

1. Local reconciliation of supporting receipts to credit card statements;
2. Secondary review and approval of reconciled credit card statements and receipts by Mercy Corporate Services prior to payment;
3. The transition of check processing to Mercy Accounts Payable Shared Services (MAPSS) effective August 1, 2009, strengthening the segregation of duties control.

In addition, we plan to eliminate the remaining company-paid credit card in November and convert to purchasing cards and co-worker paid travel cards, as deemed necessary and approved by Mercy Corporate Services. By transitioning from company-paid credit cards to purchasing cards and co-worker paid travel cards, implementing the additional authorization control, and utilizing MAPSS to process payment, we have strengthened controls over cash disbursements and this will, in turn, help prevent the misappropriation of assets.

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